Deep Pockets and Deepening Ties
China in the Gulf


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This report examines the economic relationship between the People’s Republic of China (China) and the Gulf Cooperation Council (GCC) states in the period 2014-2019, analyzing the latest developments regarding the Belt and Road Initiative (BRI) in the Gulf. The scope of this report includes the six GCC states: Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and the United Arab Emirates (UAE).

Since 2014, China and the Gulf monarchies have established several initiatives to promote economic engagement and deepen trade. These efforts include transnational programs like BRI as well as national development projects like Saudi Arabia’s Vision 2030. This period also saw many obstacles to deeper Sino-GCC ties, including economic and political crises in the Gulf and major strains on the China-U.S. relationship. The report finds that the GCC states—caught between the United States, their closest security ally, and China, a major commercial partner—have sought a balanced relationship with each superpower to maximize their national economic and political interests.

Progress in Sino-GCC relations varies across sectors, over time, and between countries. While trade, finance, and business relations between GCC states and China have generally grown from 2014-2019, foreign direct investment from China to the Gulf states dropped precipitously in 2019. Despite this general drop in investment, two GCC states—Saudi Arabia and the UAE—dominate their neighbors as China’s preferred economic partners.

This report demonstrates that the 2014 crash in the price of oil and the 2017 Gulf crisis which divided the GCC did not affect economic relations in a significant way. It also suggests that Chinese investment in Gulf countries has not contributed to the economic diversification programs backed by GCC leaders.

Finally, this report includes policy recommendations for GCC states, Chinese political leaders, Gulf oil companies, and private Chinese firms to encourage the growth of Sino-GCC relations. These include:

- Shifting the focus of Chinese investment toward technological and infrastructure projects instead of the hydrocarbon industry.
- Exploring and overcoming barriers to economic diversification within the GCC states.
- Employing diplomatic hedging strategies in Gulf capitals to facilitate friendly relations with the United States and China during a period of increased international competition, thereby maximizing national interests and securing necessary financial backing for economic diversification.
• Contextualizing and individualizing BRI projects to meet national needs and opening up new areas for economic integration.

The findings from the research provided in this report offer policymakers and international observers a better understanding of the history and trajectory of Sino-GCC economic relations. By increasing knowledge on this important relationship, both China and the GCC states may address the obstacles to further economic cooperation and overcome future challenges.
This report examines the dramatic changes in China-GCC relations between 2014 and 2019. China launched the Belt and Road Initiative (BRI) and established the Asian Infrastructure Investment Bank (AIIB) in 2013. Participation in the BRI and AIIB could prove beneficial to GCC states seeking to diversify their economies, but the relationship faces multiple challenges—notably the COVID-19 pandemic and plummeting oil prices. How have China-GCC relations changed dramatically since 2014? How have these relations weathered challenges?

The relationship between investment and trade is complex and difficult to infer through theoretical analysis. The investment-trade relation has a temporal nature, and varies greatly from country to country. However, it is certain that both trade and investment are related to politics, as governments for political reasons encourage or restrict economic activity. This paper will include investment and trade data to provide a more comprehensive picture of Gulf-China relations.

Since 2014, China's investments in, and trade with, the Gulf have increased significantly, but the increase has been unevenly distributed by economic sector. Oil and gas still constitute the greatest source of economic exchange between GCC states and China, with the exception of Oman, which has a close loan relationship with China; Muscat has borrowed extensively from Chinese banks and the AIIB. The Gulf states maintain close geopolitical relationships with the United States, but have selectively engaged with China against American opposition. For example, almost all of the GCC nations allowed Huawei to participate in their 5G construction, despite strong pressure from the United States.

By analyzing the types of investments and trends in different GCC countries since the establishment of the Belt and Road Initiative (BRI), this paper argues that the Gulf should not be seen as a monolith when considering the effects of China's BRI. This research also argues that China's BRI, rather than a comprehensive and unified plan, is a loosely structured strategy focused on advancing China's economic interests with individual Gulf States, rather than the GCC as a uniform bloc.
The Middle East holds 48% of global oil reserves and 40% of global gas reserves. The GCC states—which boast a significant portion of regional oil and gas reserves and exhibit valuable political stability—have thus become strategically vital for Beijing. As a result, the Gulf countries are strategically vital for China. However, it is worth noting that the Gulf nations vary broadly in their relationships with Beijing. For regional powers like Saudi Arabia and the UAE, energy trade is only part of their economic relationship with China, whereas other Gulf states like Bahrain and Oman are heavily reliant on hydrocarbon exports to China.

Bahrain is one of the most economically vulnerable Gulf states. Roughly three-fourths of its 2016 government revenues came from the oil and gas sector, though Bahrain has far fewer oil reserves compared with other Gulf states. Although Bahrain's dependence on China's energy market has grown consistently since 2014, its ties with China on oil trade and investment are still relatively weak. Bahrain's oil exports rank second among Bahrain's exports to China, far lower than its exports of vehicles. In 2018, less than 1% of Bahrain's exported petroleum went to China, while 10% went to South Korea and 26.8% went to the United Arab Emirates.

The energy trade between China and the UAE is also less significant than one might believe. In 2018, China only accounted for 10.3% of the UAE's total exported crude petroleum, while more than 30% went to China. The top export products from the UAE to China are vehicles and machinery, while oil products only ranked fifth in 2018. Yet the UAE's situation differs from Bahrain's. The UAE is a regional power, and it depends on foreign economic partners more than Bahrain does. Although China surpassed the United States in 2011 as the world's top energy consumer and U.S. demand for importing oil has dropped because of its domestic fracking boom, U.S. petroleum imports from the UAE have doubled from 2014 to 2019. Conversely, U.S. petroleum imports from Bahrain have dropped by more than 50% in the same period.

China relies heavily on natural gas imports from Qatar. Qatar is China's largest foreign source of natural gas, enjoying a 20% share of the Chinese market. The dependence of Qatar on the Chinese energy market has grown steadily in the past decade, reaching its height at 11.4% of total Qatari exports in 2019. However, the energy trade between these two countries is not balanced; China does not dominate the Qatari natural gas market. In 2018, China ranked as Qatar's fourth-largest export destination, taking only 8.36% of the total gas exports. Japan, South Korea and India each accounted for a greater share than China.
China plays a more important role in the economies of Oman, Saudi Arabia, and Kuwait. Trade between China and Oman is largely oil-based with China dominating Oman's hydrocarbon exports; in 2020, China imported 90% of Oman's total crude oil exports. Until 2020, China imported 90% of Oman's crude oil exports.[8] In 2014, China's demand for Oman's energy imports dropped slightly; from 2014 to 2019, China's total energy imports from Oman were reduced from 8.8% to 6.1%.[9] However, Oman remains one of the major oil importing sources for China, and China will likely keep expanding its trade deals in Oman. For example, in July 2020, China National Petroleum was in talks to acquire part of BP's stake in one of Oman's most significant gas fields.[10]

The largest oil producer in the Middle East, Saudi Arabia, has a particularly strong energy relationship with China. More than 11% of China's total energy imports since 2014 come from Saudi Arabia, while China's energy market constitutes approximately 10% of Saudi energy exports. In June 2020, China imported more oil from Saudi Arabia than from any other country.[12] Indeed cooperation and investments between these two countries have centered on the oil industry. In November 2019, Saudi Aramco signed new deals to supply five Chinese firms[13] with crude oil in 2020. This trend may continue in the post-pandemic era; China's success at controlling the pandemic has meant that its market is returning to normal, while the West continues to struggle to contain the outbreak slowing economic recovery.
Although FDI, as well as the oil and gas trade, are crucial to the GCC-China relationship, trade in other products also acts as a key driver of commerce. For example, the UAE is China’s largest Gulf trading partner but trade in other goods has eclipsed the trade of oil and gas. Still, in most Gulf countries like Saudi Arabia, Qatar and Kuwait, the energy industry remains central to their relationship with China.

The UAE and Saudi Arabia have the largest trade volume with China among GCC countries. However, Kuwait and Qatar are more dependent on trade with China than the UAE and Saudi Arabia. China’s share of GCC exports has remained stable from 2014 to 2019, and the share of Qatar’s exports to China remains the highest in the region. Kuwait’s imports from China, as a percentage of total imports, remain higher than Saudi Arabia’s, though the total value of Kuwait’s imports is far less than that of Saudi Arabia. The proportion of total exports Qatar sends to China has increased from 7.7% to 11.4%, while the proportion of exports to China for other Gulf states are all lower than 3% (see Figure 3).[14]
Excluding oil and gas exports, the volume of Qatar’s exports to China has remained constant since 2014. Of the GCC nations, only Saudi Arabia and the UAE have witnessed growth in their export volume to China; the other countries have remained largely stable since 2014. China’s rank as a Qatari trade partner has grown over the past six years. China was Qatar’s largest export customer from 2014 to 2016, but has, however, dropped to the fourth position since 2017. Qatar and China have also expanded their cooperation in telecommunications and other forms of technology (see figure 2).[15]

In 2015 and 2016, Oman’s trade relations with China showed unprecedented growth. Oman’s percentage of imports from China grew from 5% to 13.4%, and its exports to China skyrocketed from 1.5% to 44.1% in 2015. This astonishing growth came about since in 2015, Oman exported more mineral fuels and mineral oils to China, and in 2016, it imported four times more electrical machinery and equipment than previous year. Omani trade with China shrunk drastically in 2016, however, and now rests near its 2014 level. (see Table 3).[16]
Figure 5: China's Annual Outward Foreign Direct Investment (millions USD)

Source: China’s Ministry of Commerce

Figure 6: Total Chinese Investment in the UAE (millions USD)

Source: China Global Investment Tracker, AEI
Foreign Direct Investment is an important category of international investment and plays a major role in the economic advancement of developing countries. FDI is also a key indicator of the economic relationship between China and the GCC. FDI is defined as international investment in which the investor obtains a lasting interest in an enterprise in another country, FDI may take the form of constructing infrastructure in a foreign country or improving the capabilities of such facilities, like property, plants, or equipment.\[18\]

After China launched the One Belt One Road Initiative in 2013, nearly every foreign direct investment from China in the GCC states was categorized as a BRI project. Altogether, the number of such investments in the GCC countries has increased significantly from 2014-2018, from $5.21 million to $10.78 billion. The number and size of investments varies widely between Gulf states. Annual investment from China tripled during this period in the UAE, but later dropped by more than 50% in 2019. By contrast, the trend of Chinese investment in Saudi Arabia remained stagnant until 2019, and has subsequently increased by about 50%. Chinese investment in Kuwait witnessed the same trend as the UAE, doubling from 2014 to 2018 but dropping dramatically in 2019. China’s investments in Qatar and Kuwait remained stable while Bahrain and Oman have attracted the least investment from China in comparison to their other Gulf neighbors (see figure 4).

According to data from China’s Ministry of Commerce, when comparing total Chinese outward investment in Asia and the world to investment in the Gulf between 2014 and 2018, only Qatar consistently mirrored the global trend. Global investment and investment in Qatar rose in 2016, and both have dropped since 2017. In contrast, Chinese investment in the UAE and Kuwait rose from 2014 to 2018, despite global totals remaining relatively flat during that time. China has disproportionately invested in the UAE and Saudi Arabia. Thus, there exists a significant opportunity for China to increase its investments in the remaining GCC countries (see Figure 5).\[19\][20]
United Arab Emirates

The UAE is one of China’s most important trading partners in the Gulf. China is the UAE’s second largest trading partner, valued at $53 billion. This figure is expected to increase to $70 billion by 2020, prior to the COVID-19 pandemic.[21] The UAE ranked 14th in terms of China’s outward FDI flows in 2018.[22]

The UAE and China cooperate closely in the oil industry. In 2018, China bought a 10% stake in three offshore oil fields in Abu Dhabi as part of the emirate’s privatization plan.[23] The Abu Dhabi National Oil Company (ADNOC) also pursued partnerships with China and its state-owned oil companies to secure investment in the UAE’s energy sector. In 2019, ADNOC formed a joint shipping venture with China’s Wanhua Chemical in the liquefied natural gas (LNG) sector to explore downstream opportunities in both countries.[24] Chinese investment has generally focused on real estate, construction[25] and infrastructure development. These two sectors accounted for 46% of total Chinese investment in the UAE.[26]

The UAE government has also shown support for China’s Belt and Road Initiative. During Sheikh Mohammed bin Rashid’s visit to Beijing in April 2019, he announced $3.4 billion in BRI investments in Dubai.[27] Three months later, when Abu Dhabi Crown Prince Mohammed bin Zayed visited China, Mohamed Alabbar, the chairman of the Dubai-based Emaar Properties, announced that he would implement an $11 billion project in cooperation with the Beijing Daxing International Airport over the next 10 years.[28] In the same year, Chinese tire manufacturer Roadbot set up a plant in Abu Dhabi with an investment of $614 million; simultaneously the UAE government’s foreign investment agency started its investment mission in China to show its support of BRI.[29]

China’s investments in the UAE are also interrelated. For example, in October 2019, China invested in a housing project in the Khalifa Industrial Zone in Abu Dhabi to serve the 5,000 employees who work at the China-UAE Industrial Capacity Cooperation Demonstration Zone. The 60 million-square feet Trader Market, which received $2.4 billion in Chinese capital, was built to store Chinese products. These investment projects show that trade relations between China and the UAE are very close, and the UAE has created an organic economic environment that continues to attract Chinese investment.

China’s FDI flows to the UAE do not reflect the same steady growth observed in infrastructure or hydrocarbon investments. This is partially explained by the fact that China’s total outward investments decreased significantly in 2019. Some Gulf states, such as Saudi Arabia and Qatar, received increasing FDI from China in 2019 however. It is possible that China is adjusting its investment distribution across the Gulf, or, alternatively, that the UAE’s market is simply no longer profitable for Chinese investors.
Saudi Arabia

Compared to the UAE, Saudi Arabia has attracted less Chinese investment, but still constitutes one of China’s largest trading partners in the Gulf, with bilateral trade reaching $32 billion in 2018. Moreover, according to the American Enterprise Institute (AEI), Saudi Arabia is China’s second largest recipient of FDI in the region, and China’s investment in Saudi Arabia rose nearly 50% in 2019, despite the fact that China’s total outward investment decreased that year. If this trend continues, Saudi Arabia has the potential to become China’s primary economic partner in the region (see figure 7). China’s investment and construction projects in Saudi Arabia focus on the oil and gas sector 32%. Other infrastructure construction projects, such as transportation and real estate, also form a large part of China’s total investments.

The Saudi government has continually shown interest in, and support for, China’s Belt and Road Initiative since its launch in 2013. During Crown Prince Mohammed bin Salman’s visit to Beijing in 2019, he negotiated with the Chinese government to build a $10 billion refining and petrochemical complex in Liaoning – a northern Chinese province. Saudi Arabia’s engagement with China is not limited to the north, but has come to include the south as well. In 2019, Saudi Arabia signed an MoU to acquire a stake in a new Chinese refinery project headed by Zhejiang Petrochemicals. Four months later, Saudi Aramco expanded its downstream investments in Zhejiang province by signing a memorandum allowing Aramco to use Zhejiang Petrochemical’s large crude oil storage facility to serve its customers in Asia. Saudi Arabia’s largest petrochemicals company also decided to build a petrochemical complex in Fujian.

Investment and construction cooperation between China and Saudi Arabia indicates a relationship as strong and important as that of China and the UAE. China has heavily invested in Saudi Arabia, while Riyadh has also invested in the Chinese market for its own interests. China’s investments in Saudi Arabia have mainly focused on energy and construction, while Saudi investment in China is largely centered on oil and energy. The outstanding growth of Chinese investment in Saudi Arabia and the firm statement of support made by Saudi Aramco for continued partnership with China suggest that Saudi Arabia’s status as one of China’s primary regional economic partners will remain unchanged for the foreseeable future.

“The outstanding growth of China’s investments in Saudi Arabia, and the firm statement made by Saudi Aramco, suggest that Saudi Arabia’s status as one of China’s primary regional economic partners will remain unchanged for the foreseeable future.”
Energy is the biggest sector for Chinese investment in Kuwait, but the total infusion of Chinese money in Kuwait is far lower than in UAE and Saudi Arabia (see figure 8). The Kuwaiti government has nevertheless actively sought Chinese investment, in hope that it would generate momentum for its North Economic Zone, established in 2017 and known as “Silk City.” Therefore, the Kuwaiti government has actively supported the BRI, believing it aligns with Kuwait's “Vision 2035” economic plan. Silk City is one of the projects included in this vision. In June 2018, the Kuwaiti government signed several MOUs with Chinese state-owned and private enterprises, including a “framework of cooperation.”

However, unlike development megaprojects in Saudi Arabia and the UAE, the “Silk City” project has faced considerable opposition in the Kuwaiti parliament, which is notably more assertive than the advisory councils in Riyadh and Abu Dhabi. Parliamentary concerns varied from the project's extraterritorial aspects, its extrajudicial character, and the involvement of China and its controversial treatment of Uighur Muslim minorities in Xinjiang province. Unfortunately, since Sheikh Nasser al-Sabah—the main leader of the “Silk City” project—left office in November 2019, the project has faced obstacles due to a lack of interest from the next government. Consequently, China's investments in Kuwait declined precipitously in 2019, despite their steady growth from 2014 to 2018. The collapse of the “Silk City” project may have been one of the reasons for the decrease in Chinese investment.

Distrust continues to undermine cooperation between China and Kuwait. When the Emir of Kuwait visited China in 2018, rumors circulated on social media suggesting that Beijing and Kuwait's deal to develop the northern islands reflected neocolonialism outraging, many Kuwaitis. The rumor reflects a deeply rooted distrust in Foreign intervention in Kuwaiti development and it is possibly a primary reason as to why the “Silk City” project receives opposition in parliament and why the subsequent prime minister has refused to focus on the project.

FDI flows between China and Kuwait run both ways. China's investments in Kuwait have expanded to the fields of education, industry, and health. Kuwait has also invested in China's transportation program; it invested $200 million into China's high-speed rail investment fund, becoming the first foreign investor in the state-of-the-art rail network. Kuwait has also planned a $10 billion investment fund with China to support China's BRI projects. Since 2014, China has invested $9.9 million in Kuwait's projects, focusing mostly on energy, transportation and real estate.
Chinese investment in Qatar is comparable to its investment levels in Kuwait. Chinese investments in Qatar increased in 2019, despite reductions in FDI from China to other GCC states. Qatari investments from China are of a different character than those of its neighbors. Unlike with Kuwait, the UAE, and Saudi Arabia, energy development constitutes only 13% of China’s investment in Qatar, while Chinese investments in Qatar’s utilities are 59% of total FDI flows (see figure 9).

Doha suffered from the 2014 oil crisis and the 2017 political schism with Saudi Arabia, the UAE, and Bahrain, but these events did not diminish Chinese investment in Qatar. In 2015, China opened its first currency clearing center in Qatar, offering local financial institutions access to the Chinese renminbi (RMB) and the foreign exchange market. According to the governor of Qatar’s central bank, this move “enhance[d] the pre-eminence of Qatar as a financial hub in the region.” This shows that China, at least prior to the 2017 Gulf crisis, saw Qatar as an attractive and stable country for the RMB hub.

Chinese and Qatari companies have also increased cooperation since 2014. In 2019, Qatar Airways acquired a 5% stake in Chinese Southern Airlines, an important step which provided access to the fast-growing mainland Chinese airline market. At the end of 2018, Qatari shipping terminal firm QTerminals signed an MoU to create joint employment opportunities and investments between the two sides.

However, the stable trend does not change the fact that China’s investment in Qatar is insignificant compared to its investment flows into Saudi Arabia and the UAE. Like its Gulf neighbors, Qatar also has an economic plan, epitomized in the Qatar National Vision 2030, though this plan is less well-known than Saudi Arabia’s similar “Vision 2030” plan. In June 2020, the Chinese Ambassador published a short article praising Qatar’s accomplishments in economic diversification and asserting that the small nation was well on its way to fulfilling its 2030 goals.

In sum, Chinese investors have so far shown less appetite for Qatar’s market in comparison to their interests in the UAE. Political risks could be one reason to explain this phenomenon; China’s reluctance to engage in local political disputes may have influenced its decision to keep Qatar at arm’s length given Qatar’s status as a pariah state in the GCC from June 2017 until January 2021.
Bahrain

Bahrain has a plan for economic diversification which revolves around marketing itself as a financial technology hub in the Middle East and North Africa. The government has established Bahrain FinTech Bay that offers technology companies office space, networking events, and a mobile app for collaboration. It also established the Bahrain Economic Development Board (EDB) that is charged with attracting investment into the Kingdom and supporting initiatives for investment. In 2018, Bahrain signed agreements with Shenzhen, a large industrial city sometimes referred to as ‘the Silicon Valley of China,’ to deepen economic ties.\[46\] The total amount of foreign direct investment from China has increased dramatically since 2016 as well.\[47\]

Although Bahrain has tried to attract Chinese investment and open untapped consumer markets for Chinese exports, the economic ties between Bahrain and China seem to be of little importance to China in comparison to its more substantial ties to Saudi Arabia and the United Arab Emirates. From the perspective of Bahrain, China remains one of its top export markets, Saudi Arabia is a far larger exporter to China.\[48\] Although the Chinese crude oil import market has increased substantially over the past decade, Bahrain has so far only taken a small part of it. While China and Bahrain have expanded their economic cooperation to technological investments, this effort may take years to result in closer economic integration.

The uncertain political and economic situation in Bahrain may be one of the reasons for its comparatively minor relationship with China. Plummeting oil prices in 2014 thrust Bahrain into political crisis, and the ongoing tension between the Sunni government and the Shi’a majority has made financial changes more difficult. Although Bahrain has received a bailout from other wealthy GCC countries in 2018, the economic situation in the Kingdom remains relatively uncertain. Moreover, the country’s precarious geopolitical situation pushes the Kingdom to prioritize engagement with its strong neighbors over an unfamiliar overseas economic partner.
Oman

Though Muscat receives slightly more Chinese FDI than Bahrain, both countries lag far behind the region in terms of attracting investment from Beijing. After the BRI was established in 2014, China has only launched seven projects in Oman and only one in Bahrain. However, Oman has deeper ties with China than Bahrain, as it lacks Bahrain's close relationship with the UAE and Saudi Arabia.

Oman's and China's cooperation extends beyond oil and gas and into other sectors of the Omani economy. The Oman Wanfang, a subsidiary of Wanfang China, has invested $10.7 billion in Oman's Duqm Industrial Park program.[49] Chinese firms are also involved in developing Oman's digital infrastructure and providing technology-related training.[50] Nonetheless, China is not a top foreign direct investor in Oman. The total amount of Chinese investments in Oman is slightly higher than the total amount of Qatari investments, and by the third quarter of 2019, the UK, the UAE, the US, and Kuwait each accounted for greater shares of Oman's total incoming foreign direct investment.[51]

Oman's difficult financial situation—exacerbated by the COVID-19 pandemic—has made the nation reliant on foreign creditors, including China. As a result, the Omani government may be more prudent in its dealings with China to avoid debt traps in the future, possibly making the Omani government more cautious when dealing with China. Compared with Bahrain, Oman has a more obvious need for cooperation with foreign powers outside the region, but it remains unclear whether China will fill that role.
While the Gulf states are known for their great wealth, China has been willing to provide loans when necessary to GCC states that require them. Since the oil price crash in 2014, Oman has accrued billions of dollars in external debt; it has borrowed more money from China than from any other GCC state. Oman is also the only Gulf country that has borrowed money from the Asian Infrastructure Investment Bank (AIIB) and from Chinese banks. Chinese loans, together with other Chinese investments in Oman, have led to the fear that Oman is falling into a debt trap and it will not be able to repay the money it lent from China.

“The Chinese loans, together with other Chinese investments in Oman, have led to the fear that Oman is falling into a debt trap”

The most recent development in the China-Oman financial relationship took place in June 2020, when Bank Muscat completed a 5-year, $150 million loan facility with China Development Bank.[s3] It ultimately borrowed $3.55 billion from Chinese banks in 2017.[s4] Oman is also the only Gulf country that has applied for money from the Asian Investment Industrial Bank, a multilateral development bank where China is a significant minority shareholder. Oman’s government has also raised $1 billion by selling a 49% stake in the Oman Electricity Transmission Company to the State Grid Corporation of China. The AIIB has also invested in a solar power project in Oman.

Although the concerns about Oman’s debt are a continued point of contention, the China-Oman relationship is still important for both parties. China's priority has always been to secure a stable supply of energy resources, and Oman’s Duqm port is a strategically important location, since it is easily accessible from both South-East Asia and East Africa and bypasses the volatile Strait of Hormuz. Oman also needs financial cooperation with China, as it faces a large financial challenge and is reluctant to seek help from other Gulf countries. As a result, China, an international power outside the region, is a good choice for the Omani government.

5G Construction

Apart from foreign investment and cooperation, China has notably participated in the GCC states’ development of fifth-generation (5G) cellular networks. 5G construction has sparked worldwide controversy because of the 2018 trade war between China and the United States, which views Chinese 5G giant Huawei as a conduit for Chinese espionage. The United States has banned Huawei within its own borders, and has urged other countries to do so as well.
Whether a country allows China to participate in 5G construction has become a litmus test for whether that country aligns more strongly with Washington or Beijing. However, this assumption is inaccurate in the Gulf. Most GCC states have extremely close geo-political relations with the U.S., but have also insisted on collaboration with Huawei.

Huawei has cooperated with countries in the Gulf for over two decades, and Huawei has played an integral role in 5G expansion in the Gulf. The UAE and Kuwait were the first two GCC countries to construct a 5G network. By the end of 2019, UAE 5G coverage reached 80% in cities, and according to the agreement between Huawei and Kuwait telecommunications operator VIVA, the two parties deployed more than 1,000 5G sites in Kuwait in early 2019. In 2020, in spite of the COVID-19 pandemic, the partners completed a nationwide 5G commercial network in Kuwait. At the end of 2019, the Chinese ambassador to Kuwait published an article on the Chinese Embassy’s website, emphasizing the importance of using 5G and expressing hope for Kuwait’s Vision 2035 plan.

China has also cooperated with Qatar on telecom construction. In April 2019, Huawei signed an agreement with Qatar Vodafone for further 5G construction in Qatar. The same year, Qatar Vodafone launched a new “Vodafone Gigahome” gigabit networking solution, and realized its first real-time 5G mobile call and holographic video call in the region using 5G handled terminal devices.
Conclusion

Since the launch of China's Belt and Road Initiative, the GCC countries have responded positively by attempting to align BRI's objectives with their own domestic visions for the future. Effectively tracing China's relationship with the GCC states, including opportunities for and obstacles to cooperation, requires individual discussion of each Gulf country. This report traced the latest development between China and each Gulf country, and studies the impacts of the region's major economic and political crises on the relationship. As the Gulf states suffer from two major challenges—the volatility of global energy markets and the uncertainty caused by the COVID-19 pandemic—this report has aimed to contribute to the discussion on China's role in the Gulf.

Although the total amount of China's investment in the Gulf states has increased significantly since 2013, it remains unequally distributed among the Gulf countries. The UAE and Saudi Arabia have seen the most investment, while Bahrain and Oman have seen almost no Chinese FDI. China's investments in the Gulf weathered the 2014 plummet in oil prices and the 2017 political crisis largely without incident. However, as the example of Kuwait's Silk City project shows, China's investments can nonetheless be affected by local conditions in the Gulf. For this reason, it has stayed out of the competition between Saudi Arabia and Iran for leadership in the region, as it does not serve China's core national interests.[57]

Energy still represents the largest sector for Chinese investments in most of the Gulf countries, although some GCC states such as the UAE have successfully explored other sectors to attract investment and pursue economic diversification. It is also worth noting that different GCC countries have pursued different economic strategies, even if they draw in similar amounts of Chinese investment. Variance also exists within oil and gas trade, as well as in other trade sectors with China.

"different GCC countries have pursued different strategies, even if they have similar amounts of Chinese investment"

Since 2011, when China surpassed the United States to become the biggest oil and gas consumer in the world, its relationships with the GCC countries have become more important, especially those with Saudi Arabia, Kuwait, Oman, and Qatar. Its relations with the UAE are also close, although the oil and gas trade has given way to mutual investment in other sectors. Bahrain, the smallest state in the region, has had comparatively less commercial contact with China.
The UAE and Saudi Arabia have expanded their trade relations with China in other sectors such as vehicles, and China seems to have spent most of its money in these two countries. Although Kuwait and Qatar have smaller trade levels with China, they are nonetheless heavily dependent on the Chinese market. Oman, unlike among the GCC states, has borrowed substantial sums of money from China, either from Chinese banks or the AIIB. While Bahrain faces similar financial challenges to Oman, it has the weakest relationship with China.

However, the cooperation between China and the Gulf states are unequally developed, and China has focused more on the UAE and Saudi Arabia – widely regarded as the two most important regional powers in the GCC – than on other, smaller Gulf countries. Through BRI, China has invested tens of billions of dollars in countries throughout the Middle East[58], but these investments have not significantly contributed to the economic diversification process in the Gulf states. Cooperation projects between China and the Gulf are fragmented, loosely organized, and seem to lack overarching strategic plans. Since 2014, China-Gulf relations have weathered challenges, and Beijing’s scrupulous neutrality in regional conflicts has helped it to avoid being set back by economic and political crises. Ultimately, however, relations between China and the Gulf have not witnessed substantial changes in relations over the last five years.

For the Gulf countries, FDI remains the best opportunity to carry out major structural reforms to their economies. For this reason, it is essential that, over the next decade Gulf authorities create a stable and attractive regional environment for global investors. To attract more capital flows from China, they could also use hedging strategies to avoid regional and international power conflicts and maximize financial development interests.

In the years ahead, instead of focusing on the oil and gas trade, Gulf governments and Chinese investors should focus on technological development and infrastructure programs. The Chinese government should adjust and contextualize its BRI programs and policies in the Gulf countries, and encourage Chinese investors to expand their cooperation with the Gulf outside the energy field.

By taking these steps, Gulf and Chinese authorities could deepen their economic ties, contribute to regional economic transformation, and achieve mutual benefit – but only if both sides make an active effort to create and maintain a stable regional and financial environment in the years ahead.
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